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FOR REPRESENTATIVE ELIOT ENGEL FROM AMBASSADOR TONY WAYNE

DEPARTMENT FOR H AND RM/F/DFS/FO/AA/CAA

E.O. 12958: N/A

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SUBJECT: ARGENTINA: SCENESETTER FOR CODEL ENGEL

11. (SBU) Introduction: On behalf of Embassy Buenos Aires, I warmly welcome your visit to Argentina February 20-23. The Government of Argentina is billing your visit as a major indicator of U.S. goodwill, firming up the recent "rapprochement" that ended seven weeks of discord. With the new administration of President Cristina Fernandez de Kirchner, we are looking to build on an already strong and positive bilateral relationship. We are working together in significant areas of mutual interest and cooperation in counter-terrorism, counter-narcotics and regional stability. During your meetings with President Kirchner, senior cabinet members, and the congressional leadership, you will have the opportunity to discuss a range of bilateral and regional issues and reinforce our positive agenda. End Introduction.

Political Context

12. (SBU) In December, two days after President Cristina Fernandez de Kirchner was inaugurated, the GOA misinterpreted and over-reacted to news reports concerning a federal case in Miami against some Venezuelans and an Uruguayan who were arrested on charges of operating and conspiring to operate in the United States as agents of the Venezuelan government without notifying the Attorney General as required by law. During the proceedings in Miami, allegations surfaced that undeclared cash brought into Buenos Aires in August 2007 from Venezuela had been destined for a presidential campaign. The statements were not made by the USG, but rather by one of those arrested. They were misinterpreted here as reflecting the USG's views.

13. (SBU) President Fernandez de Kirchner reacted angrily to the implication that she had been the intended recipient of the cash that was intercepted by GOA officials. She publicly interpreted the Miami arrests as directed against her government and characterized the case as a "garbage operation." Her ministers and the Argentine Congress made similar statements. However, the rhetoric gradually subsided, and the relationship normalized with a great deal of behind the scenes work. A new beginning occurred on January 31, when I met with President Fernandez de Kirchner. We agreed at that meeting to put the case aside and to work to strengthen bilateral cooperation. Her chief Cabinet Minister Alberto Fernandez was vital to the agreement.

Background

14. (SBU) Argentina, once one of the richest countries of the world, has experienced much economic decline and political instability over the last 70 years, culminating in a profound political and economic crisis of 2001-2002 that was comparable to our Great Depression. A

financial panic in November 2001 led to bloody riots, forcing President De La Rúa to resign. Argentina defaulted on \$88 billion in debt, the largest sovereign debt default in history. Many Argentines are at a loss to explain how their country, blessed with rich natural resources, fertile land, and low population density, fell so far short of its potential. Some blame the military dictatorships, which predominated between 1930 and 1983; others blame corruption and a series of populist measures taken since 1944; and a significant number of Argentines blame external factors, particularly the IMF and alleged U.S. insensitivity to their plight.

Political Landscape

¶5. (SBU) Cristina Fernandez de Kirchner (CFK) took office on December 10, receiving the presidential sash from her husband, Nestor Kirchner. He completed his four-and-a-half-year term as the most popular Argentine President since the return to democracy in ¶1983. Kirchner in 2002 was a little-known governor of the remote province of Santa Cruz in southern Argentina. He won the presidential election in 2003 with less than 23% of the vote and then oversaw the country's Phoenix-like recovery from its 2001-2002 crash. His wife, CFK, has a long history in politics, having served in the Chamber of Deputies and most recently in the Senate. She won the October 28 election with 45% of the vote over a divided and largely ineffective opposition, and she enjoys a strong majority in both houses of Congress. Having campaigned on themes of change and continuity, she has retained most of her husband's cabinet. Major policy challenges for the new President will be to contain inflation, attract and boost investment -- particularly in Argentina's energy sector -- and to restore a sense of law and order to an electorate increasingly concerned about crime and security. She has also made clear that she would like to improve relations with the United States and other international partners.

Economic and Commercial Landscape

¶6. (U) Argentina benefits from rich natural resources, a highly literate population, an export-oriented agricultural sector, and a diversified industrial base. Following the 2001-2002 economic crisis, 2003-2006 real GDP growth averaged over 8%, and Argentina's GDP in 2007 grew at an estimated rate of 8.5% to \$255 billion, roughly \$6,500 per capita. This impressive economic recovery has also led to improvements in key socio-economic indicators, with unemployment down from a peak of over 20% in 2002 to 8.8% during the third quarter of 2007 and poverty levels down from a post-crisis high of over 50% to a (still-worrisome) 25% range. The five-year-long economic recovery can be attributed to a number of factors, including a post-crisis move to a flexible exchange rate regime, sustained global and regional growth during this period, the government's efforts to boost domestic aggregate demand via monetary, fiscal, and income distribution policies, and favorable international commodity price and interest rate trends.

¶7. (U) While the accumulation of a substantial foreign exchange reserve cushion (over \$46 billion as of December 2007) and expanded tax collections have helped insulate Argentina's economy from external shocks, the Central Bank's policy of maintaining an undervalued exchange rate and negative real interest rates has contributed to substantial inflationary pressures. Private sector analysts estimate inflation is in the 17-20% range for 2007, although the government's official 2007 inflation is 8.5%. There is ongoing public debate about inflation measures. To help control inflation, the government largely froze key public utility tariff rates since 2002 and, since 2005, has negotiated price stabilization agreements on a sizeable basket of essential consumer goods. The combination of Argentina's undervalued currency and high global commodity prices have lifted Argentine exports to a record \$55.4 billion in 2007. Major 2007 Argentine export markets were Mercosur (22%), the EU (18%) and NAFTA (11%). Argentine 2007 imports totaled \$44.8 billion, with the major suppliers Mercosur (36%), the EU (17%) and NAFTA (16%). Total U.S.-Argentina two-way trade in 2006 (the latest year available) amounted to \$8.9 billion. Imports from the U.S. largely comprise intermediate capital goods which have

contributed to improvements in domestic productive capacity.

¶18. (U) Over 450 U.S. companies are currently operating in Argentina and employ over 150,000 Argentine workers. U.S. investment in Argentina is concentrated in the manufacturing, information, and financial sectors. Other major sources of investment include Spain, Chile, Italy, France, Canada, Japan, and Brazil. U.S. investment in Argentina is concentrated in the manufacturing, information, and financial sectors. A range of economic experts have identified challenges to sustaining high levels of economic growth in the future, including: capacity constraints; the need for substantial new investment in primary infrastructure; potential energy shortages in the face of high growth and domestic energy prices kept below international market levels; increasing scarcity of highly skilled labor; inflation and the government's heterodox policies to contain it, including price controls. Continuing Argentine arrears to international creditors (including over \$20 billion in default claims by international bondholders, including U.S. citizens, and over \$6 billion owed to official creditors, approximately \$360 million of which is owed to the U.S. government) and a large number of arbitration claims filed by foreign companies, including U.S. companies, are legacies of the 2001/2002 economic crisis that remain to be resolved and adversely affect Argentina's investment climate.

Bilateral Relations and Strategic Goals

¶19. (SBU) Argentina maintains positive political relations with the United States, but one of the major tasks facing the Embassy is forging relationships of trust with a government that has been largely inward-focused and intent on maintaining an image as independent from our country. In lobbying the GOA, it can be counter-productive to push an issue too aggressively and specially in public. Argentine officials react very negatively to perceived affronts to their sovereignty, often winning public support for their strong reactions. Shut off from other sources of international financing, the GOA has turned to Hugo Chavez to place its latest bond issues. The largest overall challenge we face in Argentina is the high level of anti-Americanism in the Argentine public. Argentina consistently registers the highest levels of anti-Americanism in the hemisphere in public opinion polls. Working to change these perceptions is the Embassy's highest priority.

¶10. (SBU) Argentina is, nevertheless, a Major Non-NATO Ally and cooperates in regional security, counter-terrorism, drug interdiction, and in contributing troops to U.N. peacekeeping missions. The GOA has been a strong international voice on arms control and nonproliferation issues. In the IAEA, the GOA has voted to refer Iran's noncompliance to the UNSC. The GOA has also endorsed the Proliferation Security Initiative (PSI).

¶11. (SBU) Terrorism: Argentina was itself a victim of international terrorist attacks in the 1990s and has been a cooperative partner in countering terrorism, especially in the Tri-border Area. On November 7, 2007, Argentina succeeded in getting Interpol's General Assembly vote to issue international capture notices for five current and former Iranian officials and one Lebanese Hizballah member (who was reportedly killed in Syria February 13) wanted in connection with the 1994 terrorist bombing of the Buenos Aires Jewish Community Center (AMIA). The Embassy and USG agencies worked with the GOA to pass comprehensive antiterrorism, money laundering, and terrorism finance legislation to strengthen local enforcement efforts. We assist the GOA in capacity-building in the Financial Intelligence Unit, within the restraints created by Brooke Amendment sanctions, to build capacity of Argentine law enforcement forces, and work closely with the Argentine military on modernization, increasing interoperability, and training and education focused on civilian control, respect for human rights, defense resource management, strategic planning, and science and technology.

¶12. (SBU) International Crime and Drugs: Argentina is a trans-shipment point for narcotics emanating largely from Colombia, Peru, and Bolivia. Argentine law enforcement agencies cooperate closely with their USG counterparts on drug interdiction efforts, fugitive arrests and information sharing, which has resulted in increased enforcement. This Mission is focused on institutional

capacity-building and expanding training opportunities for law enforcement officials, prosecutors and judges in order to improve internal security and decrease international drug and criminal activity in Argentina.

¶13. (SBU) Democracy and Rule of Law: This Mission works with the GOA, media and civil society to strengthen democratic institutions, fight corruption and reinforce civilian control of the military. We promote key reform efforts such as ending the election of representatives by party slate lists, increasing governmental transparency, and limiting public corruption and strengthening the political independence of the judicial branch. While it does not side with us on every issue, we continue to cultivate the GOA as a cooperative partner in multilateral fora, and seek Argentina's cooperation in the defense of democracy and the observance of human rights in countries like Cuba, Venezuela, and Bolivia, as well as UN peacekeeping in Haiti.

¶14. (SBU) Human Rights: The Government of Argentina generally respects the human rights and fundamental freedoms of its citizens. The Kirchner government's human rights policy focuses on seeking justice for the human rights violations committed during the 1976-83 military dictatorship, which resulted in the disappearance of 11,000-30,000 political dissidents. It does not, however, focus on bringing to justice armed guerrilla groups who also committed human rights abuses during the same period, known as "the Dirty War", albeit on a much smaller scale. To date, the courts have convicted three former officials of the military regime, including a military chaplain.

¶15. (SBU) Human Trafficking: Argentina is on the USG's Tier-2 Watchlist for lack of progress in providing greater assistance to victims and curbing official complicity in trafficking at the provincial level. Argentina is a source, transit, and destination country for men, women, and children trafficked for the purposes of commercial sexual exploitation and forced labor. According to the International Organization for Migration, 80 percent of trafficking victims in Argentina are Argentine, most of whom are trafficked for the purpose of sexual exploitation. Bolivians and Peruvians are trafficked into the country for forced labor in sweatshops and agriculture. Argentine efforts to combat trafficking have focused on prevention and training of security and government officials. Draft anti-trafficking legislation is currently being considered by the Argentine Congress, with the debate focused on the issue of victim's consent. The Senate version of the bill makes trafficking in minors a federal crime, but considers a victim's consent relevant in the case of adult trafficking victims. The Embassy has worked with NGOs, lawmakers, and government officials in an effort to push for comprehensive anti-trafficking legislation. The government has told us they intend to get a first federal law passed in the next couple of months.

¶16. (SBU) Promoting U.S. economic/commercial interests: In support of U.S. companies operating in Argentina, we are encouraging the GoA to support a more welcoming investment climate, with greater regulatory, legal, and tax regime consistency. We make a good deal of effort supporting and working with U.S. companies. We are working closely with the GoA and the Paris Club of sovereign creditors to resolve longstanding arrears to the USG and are encouraging the GoA to resolve claims of U.S. holders of defaulted Argentine bonds. Regarding ongoing WTO trade negotiations, Argentina has staked out a hard-line position that links acceptance of developed economy agricultural sector proposals with more developing nation flexibility on industrial tariff cuts. We have been urging them to adopt a more constructive approach.

WAYNE